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P 210226Z NOV 91  
 FM AMCONSUL GUANGZHOU  
 TO SECSTATE WASHDC PRIORITY 2514  
 AMEMBASSY BEIJING  
 AMCONSUL HONG KONG  
 AMCONSUL SHANGHAI  
 AMCONSUL SHENYANG  
 AIT TAIPEI 1410  
 AMEMBASSY TOKYO  
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BEIJING PLEASE PASS CHENGDU

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 SUBJECT: AMB. ROY'S CONVERSATION WITH GUANGDONG  
 GOVERNOR ZHU SENLIN

1. SUMMARY: ON OCTOBER 18, 1991, AMBASSADOR ROY PAID AN INTRODUCTORY CALL ON GUANGDONG'S ACTING GOVERNOR ZHU SENLIN. THEIR CONVERSATION WAS WIDE-RANGING AND ZHU'S COMMENTS UNDERSCORED THE IMPORTANCE HE ATTACHES TO THE ECONOMIC REFORMS TAKING PLACE IN THE PROVINCE. GOVERNOR ZHU ALSO GAVE HIS POSITIVE APPRAISAL OF PREMIER LI PENG'S RECENT VISIT TO GUANGDONG AND CONFIRMED, WITH THE PREMIER'S VISIT, THE "CENTER STILL WANTS GUANGDONG TO GO ONE STEP AHEAD." AMBASSADOR ROY TOOK THE OPPORTUNITY TO CALL FOR GREATER COOPERATION BETWEEN THE CUSTOMS SERVICES OF THE TWO COUNTRIES TO HALT THE EXPORT OF PRISON

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MANUFACTURED GOODS. END SUMMARY.

2. ON OCTOBER 18, 1991, AMBASSADOR ROY PAID HIS INTRODUCTORY CALL ON GUANGDONG'S ACTING GOVERNOR ZHU SENLIN. ALSO PRESENT WERE LIAO XIMING, DEPUTY DIRECTOR, GUANGDONG FOREIGN AFFAIRS OFFICE, DENNIS G. HARTER, AMERICAN CONSUL GENERAL IN GUANGZHOU AND JOHN TKACIK, CHIEF OF THE CONSULATE GENERAL'S POLITICAL AND ECONOMIC REPORTING SECTION.

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GOVERNOR ZHU MODEST ON GUANGDONG GROWTH  
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3. AFTER AN INITIAL EXCHANGE OF PLEASANTRIES, AMBASSADOR ROY OBSERVED HE HAD VISITED GUANGZHOU DURING HIS PREVIOUS TENURE IN BEIJING, AND THE  
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CHANGES SINCE THEN HAD BEEN GREAT. IN FACT, HE BELIEVED GUANGDONG'S CHANGES HAD BEEN THE GREATEST AND ITS ECONOMY WAS EXPANDING THE FASTEST OF ANYWHERE IN CHINA. GOV. ZHU MODESTLY RESPONDED "WE DO NOT WANT TO SAY WE ARE GROWING THE FASTEST, THAT WOULDN'T BE VERY HUMBLE OF US." BUT, IN FACT, GOV. ZHU POINTED OUT, INDUSTRIAL GROWTH IN THE PAST YEAR ALONE HAS BEEN 27.3 PC AND OVER THE PAST 10-PLUS YEARS SINCE REFORM BEGAN, GUANGDONG'S ANNUAL GDP GROWTH HAS BEEN 12.3 PC. WITH THIS, ZHU ACKNOWLEDGED, THE ECONOMY HAD INDEED GROWN RAPIDLY.

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DEVELOPING MOUNTAIN AREAS IS A PRIORITY  
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4. GOVERNOR ZHU SAID GROWTH HAS BEEN THE FASTEST IN THE PEARL RIVER DELTA, AND THE DELTALS "EAST AND WEST WINGS" (I.E., JIANGMEN TO THE WEST AND HUIZHOU TO THE WEST OF THE PEARL RIVER DELTA) HAVE GROWN AS WELL, THOUGH A BIT SLOWER THAN THE DELTA ITSELF. THE MOUNTAINOUS AREAS IN THE NORTH STILL LAG FAR BEHIND. THERE ARE 49 MOUNTAIN AREA COUNTIES WHICH NEED GREATER ATTENTION FROM THE PROVINCIAL GOVERNMENT. THEY ARE FAR FROM THE COAST AND RIVER TRANSPORTATION CHANNELS/ AND THEIR HIGHWAY SYSTEMS ARE PRIMITIVE. IN THE EIGHTH FIVE YEAR PLAN, NEW TRANSPORTATION LINKS WILL BE BUILT. FOR INSTANCE, THERE ARE TWO MAJOR HIGHWAYS PLANNED FOR THE MOUNTAINOUS NORTHEASTERN REGIONS, AND A NEW RAIL LINK WILL PUSH THROUGH JIANGXI INTO NORTHEASTERN GUANGDONG AND ON TO SHENZHEN WHICH WILL IMPROVE COMMUNICATIONS FOR THE  
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POORER MOUNTAIN AREAS. THIS WILL BE THE SECOND RAIL  
LINK FOR GUANGDONG, WITH THE EXISTING ONE COMING  
THROUGH HUNAN ON TO GUANGZHOU. OF COURSE, THE RAIL  
LINK BETWEEN GUANGZHOU AND THE FAR WEST (ZHANJIANG)  
HAS ALREADY BEEN COMPLETED. GOV. ZHU SAID ANOTHER  
PRIORITY IN DEVELOPING THE POORER AREAS IS THE  
"CULTIVATION AND TRAINING OF TALENTED PERSONNEL-"  
"WE HAVE TO SEND GOOD CADRE TO THE MOUNTAIN AREAS"  
AND BRING CADRE FROM THOSE AREAS DOWN TO THE DELTA.  
WITH THIS TYPE OF CROSS TRAINING, ZHU EXPLAINED,  
GUANGDONG HOPES TO IMPROVE THE QUALITY OF CADRE.

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SUBJECT: AMB. ROY'S CONVERSATION WITH GUANGDONG

5. THE MAJOR FORCE FOR DEVELOPMENT HAD BEEN THE OUTSIDE-ORIENTED ECONOMY (WAIXIANG XINGDE JINGJI). IN GENERAL, SAID GOV. ZHU, THE ENTIRE ENTERPRISE SECTOR (QIYE KOU) IS PROGRESSING WELL.

FOREIGN-INVESTED ENTERPRISES AND THE COLLECTIVES ARE GROWING VERY FAST, BUT EVEN THE "OLD ENTERPRISES (LAO QIYE) ARE DEVELOPING WELL." THERE ARE ABOUT 11,000 FIE'S IN GUANGDONG AND OVER 20,000 ENTERPRISES ENGAGED IN EXPORT PROCESSING (SANLAI YIBU). ONE OF GUANGDONG'S MAIN PRIORITIES NOW WILL BE TO BRING A HIGH LEVEL OF SCIENCE AND TECHNOLOGY INTO THE PROVINCE'S INDUSTRIAL SECTOR. THIS IS ALREADY TAKING PLACE.

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ELECTRIC POWER GENERATION IS PROGRESSING

6. AMBASSADOR ROY ASKED ABOUT ELECTRIC POWER PROBLEMS, POINTING OUT "DURING MY LAST VISIT I REMEMBER THERE WAS A SLIGHT PROBLEM WITH ENERGY SUPPLIES." GOV. ZHU LAUGHED, "A SLIGHT PROBLEM. THERE WAS A BIG PROBLEM!" HE SAID THE PROBLEM STILL EXISTS, THOUGH NOT AS SEVERELY AS BEFORE. THE PROVINCE NOW HAS 8.27 MILLION MEGAWATTS INSTALLED CAPACITY/ AN INCREASE OF 13.5 PC OVER LAST YEAR. THIS HAS MEANT AN INCREASE IN THE LIVING STANDARDS OF THE COMMON PEOPLE. ZHU PROUDLY EXPLAINED "THE MAJOR DIFFERENCE NOW IS ELECTRIC POWER IS NOT BEING USED JUST BY INDUSTRY ANYMORE, BUT BY HOUSEHOLDS AS WELL."

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GUANGDONG STILL FORECASTS A SIGNIFICANT ENERGY SHORTFALL IN THE COMING YEARS, ADMITTED ZHU, BUT THIS WILL BE MET WITH NEW PROJECTS COMING ON LINE. THE

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DAYA BAY NUCLEAR PLANT, FOR INSTANCE, WILL COME ON STREAM IN "1994" (SIC). ENGINEERING WORK ON THE PLANT IS PROCEEDING SMOOTHLY. (NOTE: THE ORIGINAL TARGET DATE WAS LATE 1992, WHICH WAS RECENTLY PUT BACK TO 1993. AS FAR AS WE KNOW, THE 1993 DATE STILL HOLDS. END NOTE)

7. REGARDING THE PLANT, AMB. ROY COMMENTED HONG KONG PEOPLE ARE ALSO INTENSELY INTERESTED IN THE MANAGEMENT OF THE PROJECT. GOV. ZHU WAS INSISTENT "WE HAVE ABSOLUTE CONCERN FOR SAFETY." HE SAID THE FRENCH CONTRACTORS HAVE A LOT OF EXPERIENCE IN NUCLEAR POWER GENERATION AND THE FRENCH NUCLEAR INDUSTRY IS AMONG THE WORLD'S MOST SOPHISTICATED.

8. NOTING PREMIER LI PENG HAD VISITED THE DAYA BAY NUCLEAR PLANT DURING HIS VISIT, AMBASSADOR ROY ASKED ABOUT THE REST OF LI'S VISIT. ZHU SAID LI'S IMPRESSION OF GUANGDONG WAS "VERY GOOD." PREMIER LI WAS, OF COURSE, INTERESTED IN VISITING THE NUCLEAR PLANT AT DAYA BAY WHICH WAS A PROJECT HE STARTED OVER TEN YEARS AGO WHEN THE PREMIER WAS SENIOR VICE MINISTER OF POWER GENERATION. ZHU OBSERVED THE PREMIER VISITED SHANTOU FOR THE FIRST TIME.

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SHENZHEN STOCK MARKET IS STABILIZING  
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9. IN GENERAL THE PREMIER'S VISIT (10/9 TO 10/16) WAS VERY SUCCESSFUL, ZHU RECOUNTED. BECAUSE GUANGDONG'S ACHIEVEMENTS IN ALL AREAS -- AGRICULTURE, INDUSTRY -- BUT ESPECIALLY THE REVITALIZATION OF THE LARGE AND MEDIUM STATE OWNED ENTERPRISES -- HAVE BEEN VERY GOOD, PREMIER LI WANTED TO CONGRATULATE THE PROVINCE. LI ALSO WANTED TO VISIT SHENZHEN TO COMMEND THE ADVANCES MADE IN THE HIGH TECHNOLOGY AND SERVICE (DISAN CHANYE) SECTORS. DEVELOPMENT IN THE

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SERVICE SECTOR, "INCLUDING FINANCE, INFORMATION, AND THE STOCK EXCHANGE, ETC.," SAID ZHU/ HAS BEEN ONE OF THE MAJOR ACHIEVEMENTS OF SHENZHEN. AS THE AMBASSADOR KNEW, SAID ZHU, SHANGHAI AND SHENZHEN ARE THE ONLY TWO CITIES WITH STOCK EXCHANGES, AND THE EXPERIENCE IN SHENZHEN HAS SHOWN STOCK ISSUANCE IS A VERY GOOD WAY FOR ENTERPRISES TO ACCUMULATE CAPITAL WHICH, IN TURN, HELPS INDUSTRIAL EXPANSION.

10. AMBASSADOR ROY SAID HE HAD HEARD THE SHENZHEN

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STOCK MARKET HAD FALLEN SOMEWHAT. ZHU DOWNPLAYED THE DROP, ADMITTING "THERE WAS A DROP WHEN THE MARKET PRICES WERE EXPANDING SO DRAMATICALLY, AS MUCH AS 30 TIMES, WITH NO RELATION TO THE REAL WORTH OF THE COMPANIES SO THE SITUATION HAD TO BE BROUGHT UNDER CONTROL." MOST RECENTLY, SAID ZHU, THINGS HAD SETTLED DOWN BY THE TIME OF HIS LAST VISIT THERE AND PRICES HAD GONE UP.

11. AMB. ROY ASKED WHETHER LARGE AND MEDIUM STATE ENTERPRISES WOULD BE ENCOURAGED TO PUT THEIR STOCK ON THE MARKET IN SHENZHEN IN ORDER TO GENERATE FINANCIAL CAPITAL FOR CONTINUED DEVELOPMENT. ZHU SAID HE THOUGHT THERE WAS STILL A PROBLEM WITH HAVING TOO MANY COMPANIES ISSUING STOCK IN THE SHENZHEN MARKET. THERE ARE NOW SIX LISTED COMPANIES WHICH WILL BE EXPANDED TO 11 SOON. THE GOVERNMENT WANTS TO GO ABOUT THIS IN A GRADUAL MANNER- CONSUL GENERAL HARTER COMMENTED GUANGZHOU ALSO WANTS TO SET UP A

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PAGE 03 GUANGZ 07145 03 OF 08 210311Z STOCK EXCHANGE. THIS IS TRUE, IT WILL STILL TAKE SOME TIME, BUT PERHAPS "WITHIN ONE OR TWO YEARS." THERE IS ALREADY ONE COMPANY IN GUANGZHOU WHICH SELLS STOCK THROUGH THE BANK OF CHINA (DONGHUANG DEVELOPMENT CORP).

SHENZHEN AIRPORT "SHARES BURDEN" WITH GUANGZHOU AND HK

12. AMBASSADOR ROY THEN ASKED ABOUT SHENZHEN AIRPORT AND THE IMPACT IT WOULD HAVE ON THE GUANGZHOU AIRPORT. GOVERNOR ZHU SAID GUANGZHOU WAS HAPPY WITH THE AIRPORT BECAUSE IT WOULD "SHARE THE BURDEN." GUANGZHOU'S TERMINAL HANDLED OVER 7 MILLION PASSENGERS LAST YEAR AND WAS THE BUSIEST IN CHINA. WITH THE NEW SHENZHEN TERMINAL, A SIGNIFICANT AMOUNT OF TRAFFIC DESTINED TO SHENZHEN CAN PROCEED THERE DIRECTLY. OF COURSE, SHENZHEN ALSO PROVIDES AN ALTERNATE HONG KONG ENTRY POINT FOR THE ALREADY CROWDED AIR TRAFFIC LINES INTO THE TERRITORY. SHENZHEN IS, STRESSED ZHU, AN INTERNATIONAL AIRPORT. THE REAL ACHIEVEMENT OF THE SHENZHEN TERMINAL WAS ITS "ECONOMICAL INVESTMENT" AND THE SPEED WITH WHICH IT WAS BUILT. IT WAS ALSO BUILT ENTIRELY WITH LOCAL FINANCES, MOSTLY FROM SHENZHEN, THOUGH THE ENTIRE PROVINCE BOUGHT BONDS FOR THE AIRPORT. AND WITH ITS 3400 METER RUNWAY, IT CAN HANDLE AIRCRAFT UP TO 747 SIZE, SO, ZHU CONCLUDED, IT HAS A SOLID GROWTH POTENTIAL. REGARDING PLANS TO EXPAND THE GUANGZHOU AIRPORT, ZHU SAID IT WOULD BE DIFFICULT BECAUSE IT IS

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SO CLOSE TO THE CITY. (COMMENT: GUANGDONG VI EWS THE  
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PRESENT AIRPORT SITE AS HAMPERING THE NATURAL  
DEVELOPMENT OF THE GUANGZHOU SUBURBS. THE PROVINCE'S  
APPLICATION TO BUILD A NEW AIRPORT SOMEWHAT FARTHER  
AWAY FROM THE CITY THAN BAIYUN WAS DENIED BY THE  
STATE COUNCIL LAST YEAR. END COMMENT) BUT ZHU  
PROUDLY POINTED OUT THE CITY HAS ALREADY BUILT A NEW  
INTERNATIONAL PASSENGER TERMINAL WHICH MAKES  
GUANGZHOU A MORE ATTRACTIVE AIR TRAFFIC DESTINATION  
THAN BEFORE.

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PREMIER LI PENG SAID GUANGDONG STILL ONE STEP AHEAD

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13. CHANGING THE SUBJECT, THE AMBASSADOR RETURNED TO PREMIER LI'S VISIT. WHAT ARE THE DIRECTIONS OF REFORM IN CHINA, AND WILL THE NEW DIRECTIONS AFFECT GUANGDONG'S DEVELOPMENT? ZHU averred the center has consistently supported GUANGDONG's reforms, and has given GUANGDONG permission to continue "one step ahead." With PREMIER LI'S VISIT, SAID ZHU, THE CENTER HAS SIGNALED IT "STILL WANTS US TO GO ONE STEP AHEAD." THERE HAVE BEEN SOME MISUNDERSTANDINGS IN THE PAST, ZHU ADMITTED, ESPECIALLY WITH THE ANNOUNCEMENT SHANGHAI'S PUDONG WILL BE A NEW INVESTMENT PRIORITY. SOME PEOPLE THOUGHT THIS MEANT THE CENTER OF CHINA'S ECONOMIC DEVELOPMENT WOULD MOVE NORTH -- AWAY FROM GUANGDONG AND TOWARD SHANGHAI. ZHU ACKNOWLEDGED SHANGHAI IS A MAJOR INDUSTRIAL CENTER OF CHINA AND CERTAINLY NEEDS NEW INVESTMENT, BUT THIS WAS NOT A CAUSE FOR CONCERN. GUANGDONG, ON THE OTHER HAND, SURPASSED SHANGHAI IN INDUSTRIAL OUTPUT LAST YEAR, AND IS STILL THE NATION'S LEADER IN EXPORTS AND IN LIGHT INDUSTRY. ZHU ALSO MENTIONED PREMIER LI'S VISIT TO PROCTER AND GAMBLE'S J/V FACILITY IN THE GETDD. THE PREMIER HAD BEEN TOLD THE LOCAL PARTNER HAD JOINED P & G "TO BRING HIGH-QUALITY PRODUCTS INTO THE CHINESE MARKET, AS WELL AS ADVANCED PRODUCTION AND MANAGEMENT TECHNOLOGY" TO THE GUANGDONG PARTNER. ZHU QUOTED LI AS SAYING "SO LONG AS YOU BRING A GOOD PRODUCT, YOU ARE WELCOME." ZHU SAID LI WAS ALSO PLEASED P & G IS PLANNING TO OPEN A

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SECOND PHASE PROJECT. (NOTE: P & G IS ALMOST FINISHED WITH THE CONSTRUCTION OF A PAPER-PRODUCTS FACTORY. END NOTE)

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GOVERNOR ZHU WAS BORN IN PUDONG  
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14. AT THIS POINT ZHU TOLD AMBASSADOR ROY, "I UNDERSTAND YOU WERE BORN IN SHANGHAI." ALTHOUGH AMBASSADOR ROY RESPONDED "NO, IN NANJING," ZHU CONTINUED HIS THOUGHT. "WELL I WAS BORN IN SHANGHAI, IN PUDONG IN FACT, SO I CAN APPRECIATE THE NEED TO DEVELOP THAT AREA IN SHANGHAI." THE AMBASSADOR OBSERVED BOTH ZHEJIANG AND JIANGSU HAVE BEEN GROWING MORE RAPIDLY THAN SHANGHAI. ZHU REPLIED ONE MAJOR REASON JIANGSU IS GROWING SO FAST WAS BECAUSE OF THE VILLAGE AND TOWNSHIP ENTERPRISES.

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GUANGDONG COPIES WITH TRIANGULAR DEBT  
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15. HOW IS GUANGDONG COPING WITH THE MATTER OF TRIANGULAR DEBT? ASKED THE AMBASSADOR. GOV. ZHU ADMITTED "WE DO HAVE A PROBLEM, BUT WE ARE NOW STARTING ON THE FIRST STEP IN RESOLVING IT." HE EXPLAINED ONE MAJOR CAUSE HAS BEEN WITH FIXED INVESTMENT. ZHU ADMITTED THE NORMAL PRACTICE FOR FIXED INVESTMENT PROJECTS HAS BEEN TO UNDERESTIMATE THE SCOPE SO AS TO AVOID HIGHER LEVEL APPROVALS OR SUPERVISION. A 100 MILLION RMB HOTEL PROJECT WOULD STOP WHEN IT RAN OUT OF ITS ALLOTTED MONEY, AND ITS

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PRINCIPALS WOULD EITHER HAVE TO BORROW FROM THE BANKS OR THEY WOULD HALT THE PROJECT ALTOGETHER. "WELL," DECLARED ZHU, "THE BANKS WON'T LOAN BEYOND THE APPROVED PLAN SCOPE AND WHEN THEY HALT THE PROJECT, THERE IS NO MONEY INCOMING TO REPAY THE EQUIPMENT AND CONTRACTOR COMPANIES, SO NO ONE GETS ANY MONEY." GOVERNOR ZHU REASSURED THE AMBASSADOR, "GUANGDONG HAS NOW BEGUN TO TAKE STEPS TO RESOLVE THESE CASES AND THE FIRST LEVEL GOALS HAVE BASICALLY BEEN REACHED."

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GUANGDONG'S SUGAR INVENTORIES A PROBLEM IN TRIANGULAR  
DEBT.

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16. ANOTHER PROBLEM WITH THE TRIANGULAR DEBT WAS THE  
TREMENDOUS BUILDUP IN SUGAR INVENTORIES. GUANGDONG

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IS THE COUNTRY'S BIGGEST SUGAR PRODUCER, BUT IT PRODUCES ON THE STATE PLAN, AND THE CURRENT PLAN PRICE FOR SUGAR IS HIGHER THAN THE MARKET PRICE BECAUSE OF A VERY GOOD CROP. SO ALL THOSE CANDY FACTORIES AND OTHER FOOD PROCESSING FACTORIES WHICH USUALLY PURCHASED FROM THE STATE SUGAR PLANTATIONS WERE NOW JUST BUYING ON THE OPEN MARKET. (COMMENT: IT WAS UNCLEAR FROM THE CONTEXT WHETHER ZHU WAS REFERRING TO THE INTERNATIONAL MARKET. END COMMENT) ZHU CONCLUDED, "IN SUCH CASES, THIS ONLY AFFECTS THE SUGAR PLANTATIONS, SO THAT'S OKAY. BUT WE ALSO HAD A NUMBER OF PURCHASERS WHO ARE OBLIGED TO BUY SUGAR FROM THE PLANTATIONS AND THEY SIMPLY REFUSE TO PAY US ANYTHING AT ALL." THIS, ZHU IMPLIED, WAS ONE MAIN REASON GUANGDONG HAD PUSHED AHEAD TO RESOLVE TRIANGULAR DEBTS -- I.E. IT HAS BEEN THE GUANGDONG COMPANIES WHO WERE GETTING STIFFED.

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"CLOSE, STOP, MERGE, CHANGE" FAILING INDUSTRIES

17. AMBASSADOR ROY SAID THIS STRUCK HIM AS AN EASY  
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THING TO RESOLVE, "JUST GET RID OF THE STATE PRICES." "OF COURSE," AGREED GOVERNOR ZHU, "IN FACT, THIS IS AN OPTION WHICH GUANGDONG IS NOW INVESTIGATING, AND IS ONE OF THE COMPONENTS OF OUR REFORM STRATEGY." RETURNING TO TRIANGULAR DEBT, GOVERNOR ZHU SAID A MAJOR PROBLEM WAS HOW TO PROHIBIT PRODUCTION OF COMMODITIES WHICH ARE UNSELLABLE. THE PRACTICE IN GUANGDONG HAS BEEN TO "CLOSE, STOP, MERGE, AND CHANGE" (GUAN, TING, BING, ZHUAN) COMPANIES IN THIS SITUATION. SOME COMPANIES ARE HOPELESS AND HAVE TO BE CLOSED (GUAN), ZHU ASSERTED. OTHERS, HE EXPLAINED, ONLY HAVE TO STOP PRODUCTION (TING) -- BECAUSE THEY ARE PRODUCING THINGS PEOPLE DON'T WANT -- UNTIL THEY ARE ABLE TO UPGRADE THEIR EQUIPMENT AND PRODUCE HIGHER QUALITY COMMODITIES WHICH WILL BE SELLABLE. YET OTHER COMPANIES ARE MERGED (BING) WITH HEALTHY COMPANIES, AND THE HEALTHY COMPANIES WILL TAKE OVER MANAGEMENT. FINALLY, SOME COMPANIES HAVE TO BE CHANGED (ZHUAN) COMPLETELY, GENERALLY BY SELLING THEM OFF TO FOREIGN INVESTORS, OR FORMING JOINT VENTURES, OR BY CONTRACTING THEM OUT TO COLLECTIVES.

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HOW TO TAKE CARE OF DISPLACED WORKERS

18. SO FAR, GUANGDONG HAS HAD TO RECTIFY 40 000

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ENTERPRISES IN THE "GUAN TING BING ZHUAN" MANNER. AMBASSADOR ROY WAS INTERESTED IN KNOWING WHAT HAPPENED TO THE LABORERS WHO WORKED IN THOSE ENTERPRISES. "THEY ARE AWAITING EMPLOYMENT," SAID

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THE GOVERNOR. "OF COURSE, THIS MEANS THEY ARE UNEMPLOYED," ZHU EXPLAINED PARENTHETICALLY, "BUT 'AWAITING EMPLOYMENT SOUNDS BETTER,' SOME ARE REASSIGNED TO OTHER UNITS." ALL THIS UNDERSCORES THE NECESSITY FOR A RETIREMENT AND UNEMPLOYMENT INSURANCE SYSTEM. "FOR OUR OWN PEOPLE," ZHU CONTINUED, "THERE IS ALREADY SOME RETIREMENT AND UNEMPLOYMENT, BUT NOT FOR PEOPLE FROM OUTSIDE."

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GUANGDONG UNEMPLOYMENT AT TWO PERCENT

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19. GOVERNOR ZHU DIDN'T WANT TO MAKE TOO BIG AN

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	NSCE-00	OMB-01	PA-01	PM-01	PRS-01	P-01	SDEL-01
	SNP-01	SP-01	SS-01	TRSE-00	T-01	USIE-00	/043W

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P 210226Z NOV 91  
FM AMCONSUL GUANGZHOU  
TO SECSTATE WASHDC PRIORITY 2519  
AMEMBASSY BEIJING  
AMCONSUL HONG KONG  
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AMEMBASSY MANILA  
USCINCPAC HONOLULU HI

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SUBJECT: AMB. ROY'S CONVERSATION WITH GUANGDONG

ISSUE OF THIS. IN FACT, HE SAID THE GUANGDONG ECONOMY IS EXPANDING FAST ENOUGH TO KEEP UNEMPLOYMENT AT ABOUT TWO PERCENT.

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BANKRUPTCY LAW ESSENTIAL TO ENTERPRISE REFORM

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20. BUT THE PROVINCE CAN ONLY GO SO FAR BEFORE IT MUST COME UP WITH A BANKRUPTCY LAW. THE GOVERNMENT HAS NO IDEA HOW TO LIQUIDATE AN ENTERPRISE WHICH MIGHT GO BANKRUPT BECAUSE THERE IS NO LAW WHICH ESTABLISHES WHAT PROPERTY IS; AND WHO OWNS WHAT AS A MATTER OF LAW. SO THIS IS A VERY DIFFICULT PROBLEM.

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MANAGEMENT AND ADMINISTRATION OF SOCIAL SECURITY

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21. AMBASSADOR ROY ASKED AGAIN ABOUT SOCIAL SECURITY AND UNEMPLOYMENT INSURANCE, AND AGAIN GOVERNOR ZHU ADMITTED THIS WAS A NECESSARY PRECONDITION TO A BANKRUPTCY REGIME. WITHOUT SUCH A SAFETY NET, A SERIOUS ELEMENT OF INSTABILITY IS INTRODUCED INTO THE SOCIETY, AND EVERYONE VIEWS A STABLE SOCIETY AS VITAL FOR A DEVELOPING ECONOMY. AMB. ROY ASKED HOW THE EXISTING SYSTEM IS ADMINISTERED IN GUANGDONG. ZHU ANSWERED THE PROVINCE DEFINES AND ANNOUNCES POLICES, AND THE CITIES AND XIAN LEVEL GOVERNMENTS ACTUALLY ADMINISTER THE POLICIES. OF COURSE, THE PROVINCE HANDLES THE ADMINISTRATION OF INSURANCE PROGRAMS FROM

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THE PROVINCIAL LEVEL STATE-OWNED ENTERPRISES.

PRICE STRUCTURE IN GUANGDONG

22. AMBASSADOR ROY ASKED ABOUT THE PRICE STRUCTURE IN GUANGDONG- GOVERNOR ZHU INDICATED THE GENERAL PRICE LEVELS FOR MOST GOODS ARE LOWER THAN IN OTHER PROVINCES BECAUSE OF A LOWER DEPENDENCE ON HEAVY INDUSTRY. IN CHINA, OVER 75 PC OF THE BASIC RAW MATERIAL PRICES ARE CONTROLLED BY THE STATE -- FOR INSTANCE, STEEL, SUGAR, PETROLEUM. WE GENERALLY WANT TO COMBINE PLAN PRICES AND MARKET PRICES. IN GUANGDONG, VIRTUALLY ALL COMMODITIES USED IN DAILY LIVING ARE AT A MARKET PRICE. NATURALLY, SAID ZHU, A SOCIALIST SYSTEM MUST GUARANTEE A CERTAIN STANDARD OF LIVING FOR THE BROAD MASSES, SO SOME COMMODITY PRICES SHOULD BE CONTROLLED BY THE STATE, LIKE GRAIN AND SUGAR.

23. ZHU SAID GUANGDONG'S EXPERIENCE HAS SHOWN IT CAN KEEP PRICES AT A FAIRLY GOOD LEVEL WITH MARKET ADJUSTMENT, SO PRODUCTS, ESPECIALLY AGRICULTURAL SIDELINE PRODUCTS LIKE FISH, FRUIT, VEGETABLES, CAN REMAIN AVAILABLE AND AT A DECENT PRICE WITH A MARKET ADJUSTMENT. IN FACT, ZHU SAID, PRICES ACTUALLY DROPPED IN 1990 AND, IN THIS PAST YEAR, HAVE BASICALLY REMAINED LEVEL WITH LAST YEAR. "SO THE PEOPLE ARE RELATIVELY SATISFIED WITH PRICES HERE." THE MISUNDERSTANDING ABOUT FREE MARKET PRICES, EXPLAINED ZHU, CAME AT THE BEGINNING OF THE PRICE

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REFORM POLICIES WHEN PRICES WERE PRECIPITOUSLY LET LOOSE. THEN THERE WAS A SUDDEN SURGE AS PRODUCERS TRIED TO GET AS HIGH A PRICE AS POSSIBLE FOR GOODS VERY QUICKLY -- ESPECIALLY WITH AGRICULTURAL PRODUCTS -- BUT AS MORE AND MORE PRODUCERS ENTERED THE MARKET AND PRICES NATURALLY FELL, THE PRICES NOW HAVE STABILIZED.

LI PENG IDENTIFIES GUANGDONG SHORTCOMINGS

24. THE CONSUL GENERAL ASKED WHETHER PREMIER LI PENG

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	SNP-01	SP-01	SS-01	TRSE-00	T-01	USIE-00	/043W

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P 210226Z NOV 91  
FM AMCONSUL GUANGZHOU  
TO SECSTATE WASHDC PRIORITY 2520  
AMEMBASSY BEIJING  
AMCONSUL HONG KONG  
AMCONSUL SHANGHAI  
AMCONSUL SHENYANG  
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AMEMBASSY TOKYO  
AMEMBASSY MANILA  
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HAD IDENTIFIED ANY SHORTCOMINGS IN GUANGDONG DURING  
HIS VISIT? "THE PREMIER?" ASKED ZHU, "WFLI, HE SAID

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GUANGDONG HAD BEEN SUCCESSFUL AND SHOULD CONTINUE ONE

STEP AHEAD." BUT ZHU ADMITTED, "OF COURSE, WE ALWAYS HAVE FAULTS." THE PREMIER REMINDED GUANGDONG ABOUT SHORTCOMINGS IN SEVERAL AREAS. THE DIFFERENCE IN GROWTH BETWEEN THE LOWLANDS AND THE MOUNTAINOUS AREAS WAS ONE SHORTCOMING, SAID ZHU, WHICH GUANGDONG HAS IDENTIFIED AS A TARGET TO OVERCOME DURING THE CURRENT FIVE-YEAR PLAN. AND "WITH THE OPENING TO THE OUTSIDE WORLD THERE ARE STILL SOME UNHEALTHY TRENDS LIKE NARCOTICS USE AND SMUGGLING." THE PRIME ORIGINS OF NARCOTICS IS "THAILAND AND BURMA" SAID ZHU, AND THEY ARE SMUGGLED TO HONG KONG AND MACAO, WITH SOME BEING LEFT BEHIND HERE. AMBASSADOR ROY REITERATED THE UNITED STATES HOPES TO COOPERATE WITH CHINA IN CONTROLLING NARCOTICS AND SMUGGLING. ZHU  
ACKNOWLEDGED THIS.

25. ALSO, PORNOGRAPHY IS A PROBLEM, SAID ZHU. "OUR COUNTRY DOESN'T PERMIT THESE THINGS, BUT WE TREAT THEM LIKE WE WOULD A DISEASE. WE CONCENTRATE ON EDUCATION AND PROPAGANDA, AND CONSTANT INDOCTRINATIONS." ON NARCOTICS, ZHU SAID THE PROVINCE RECENTLY HAD A MEETING DURING WHICH VICE GOVERNOR LING BOTANG TOGETHER WITH ZHU AND PROVINCIAL PARTY CHIEF XIE FEI BURNED SOME OPIUM -- "LIKE LIN ZEXU IN HUMEN OVER 100 YEARS AGO?" ASKED THE CONSUL GENERAL. "EXACTLY," RESPONDED ZHU.

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SMUGGLING ALSO A PROBLEM AREA

26. GETTING BACK TO SHORTCOMINGS, ZHU SAID "AND SMUGGLING IS A PROBLEM." WE ARE A COASTAL PROVINCE AND THIS IS VERY DIFFICULT TO CONTROL. WE WANT TO ENCOURAGE PEOPLE TO USE NORMAL CHANNELS OF TRADE AND CUSTOMS. OTHERWISE THE STATE DOES NOT GET THE PROPER TAX RECEIPTS. WAS THE MAJOR SMUGGLED COMMODITY AUTOMOBILES?, ASKED THE AMBASSADOR. "CAR, ELECTRONIC APPLIANCES, CIGARETTES, ETC." CONTINUED ZHU. "YES, SHORTCOMINGS, WE'LL ALWAYS HAVE SHORTCOMINGS."

-----  
GOVERNOR BULLISH ON GUANGDONG GROWTH

27. ZHU SAID HE WAS OPTIMISTIC GUANGDONG WOULD GROW TREMENDOUSLY DURING THE COMING TEN YEARS -- "IF NOTHING BAD HAPPENS." ZHU DECLARED "THE PEOPLE HERE UNDERSTAND THE NEED FOR SOCIAL AND POLITICAL

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STABILITY. THEY DO NOT WANT CHAOS TO ERUPT. THEY KNOW IF THE SOCIETY IS STABLE THEN THE ECONOMY WILL BE STABLE." IN THE COMING TEN YEARS, ZHU TOLD THE AMBASSADOR, "YOU WILL SEE TREMENDOUS DEVELOPMENT WITH CONSTRUCTION ALL OVER, AND ESPECIALLY IN THE PEARL RIVER DELTA AND IN SHENZHEN."

-----  
AMBASSADOR CAUTIONS GUANGDONG ON PRISON EXPORTS  
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28. THE AMBASSADOR CAUTIONED TRADE WITH THE UNITED STATES WAS VERY IMPORTANT TO GUANGDONG AND HE HOPED THE UNITED STATES COULD COOPERATE BETTER WITH CHINA IN INCREASING U.S. EXPORTS. GOVERNOR ZHU ACKNOWLEDGED THE UNITED STATES IS GUANGDONG'S BIGGEST MARKET. THE AMBASSADOR ALSO CAUTIONED THE EXPORT OF "EDUCATION THROUGH LABOR" PRODUCTS TO THE UNITED STATES IS A MAJOR PROBLEM. GOVERNOR ZHU INTERJECTED HIS ASSURANCE. "WE NOW SAY WE DO NOT PERMIT THESE EXPORTS." THE AMBASSADOR CONTINUED "WE HOPE WE CAN THINK OF A WAY TO RESOLVE THESE PROBLEMS. WE BELIEVE ONE WAY IS GREATER COOPERATION BETWEEN OUR CUSTOMS

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	NSCE-00	OMB-01	PA-01	PM-01	PRS-01	P-01	SDEL-01
	SNP-01	SP-01	SS-01	TRSE-00	T-01	USIE-00	/043W

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SERVICES." WITHOUT DIRECTLY RESPONDING, ZHU SAID HE THOUGHT THE PRISON LABOR ISSUE SHOULD NOT BE A MAJOR ONE BECAUSE IT ONLY INVOLVED ABOUT "100 MILLION (PRESUMABLY RMB) AS I UNDERSTAND." ZHU EXPLAINED, "THE ADMINISTRATION OF THESE PRODUCTS WAS NOT VERY STRICT, AND OF COURSE THE PRODUCTS CAN BE SOLD IN THE UNITED STATES FOR PRICES GREATER THAN IN CHINA."

29. THE CONVERSATION CONCLUDED WITH AMBASSADOR ROY'S SUGGESTION THE GOVERNOR VISIT THE UNITED STATES DURING 1992, AN ELECTION YEAR. IT PROMISES TO BE AN INTERESTING CAMPAIGN. ZHU SAID HE WOULD VERY MUCH LIKE TO VISIT THE U.S. (HE LAST VISITED IN 1985). IN FACT, MASSACHUSETTS GOVERNOR WELD WAS RECENTLY IN GUANGZHOU AND ALSO EXTENDED AN INVITATION. HOWEVER, HIS RESPONSIBILITIES IN GUANGDONG HAVE BEEN VERY HEAVY SO HE FEARED HE WOULD NOT BE ABLE TO VISIT IN THE NEAR FUTURE.

30. COMMENT: WHILE GOVERNOR ZHU DID NOT COME UP WITH ANY STARTLING REVELATIONS DURING HIS DISCUSSION, IT IS INTERESTING TO NOTE WHAT HE IDENTIFIED AS "SHORTCOMINGS" PURPORTEDLY POINTED OUT BY PREMIER LI PENG. (NOTE: ZHU HAD TO BE ASKED TWICE ABOUT THIS BEFORE HE REPLIED. END NOTE.) ALL OF THESE SHORTCOMINGS HAVE BEEN GROUPED AT ONE TIME OR OTHER UNDER THE IDEOLOGICAL HEADING OF

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"PROBLEMS OF CAPITALISM" AND THE "EVIL" SIDE EFFECTS OF  
THE REFORM AND OPENING CAMPAIGN. WHILE AS FORMER  
GUANGZHOU PARTY CHIEF ZHU WOULD HAVE BEEN TARGETING

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THESE ISSUES HIMSELF, IT IS VERY LIKELY THESE WOULD  
HAVE BEEN ITEMS SINGLED OUT BY LI PENG. IN VIEWING  
THE ECONOMIC MIRACLE OF GUANGDONG, LI WOULD HAVE BEEN  
HARD PRESSED TO FAULT THE PURELY ECONOMIC RESULTS.  
IN FACT, WHEN LI IN HIS VISIT TH EHT P&G PLANT LEARNED  
THE COMPANY WAS THE LARGEST TAXPAYER IN ALL OF  
GUANGZHOU (REFTEL), HIS INTEREST ACTUALLY PERKED UP  
DESPITE HIS GENERAL DISDAIN FOR CONSUMER-ORIENTED  
INDUSTRIES WHICH HE VIEWS AS "WASTING" FOREIGN EXCHANGE.  
WHEN LI LEFT THE PLANT, HOWEVER, HIS MAIN COMMENT  
OF "SUPPORT" WAS TO URGE THE COMPANY TO "LOCALIZE,"  
SUGGESTING LI IS STILL LOOKING AT THE FOREIGN  
INVESTMENTS AS "COSTING" SHINESE FOREIGN EXCHANGE  
FOR THE PURCHASE OF EQUIPMENT AND RAW MATERIALS.

31. THIS CABLE HAS BEEN CLEARED WITH AMBASSADOR ROY.  
HARTER

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